



Top Ten Tax Questions

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Learning Objectives

- Identify key tax questions Catholic Charities across the country are facing and how you might answer them.
- Have an opportunity to ask your pressing tax questions and receive real-time responses.



What's on your mind?

- Contribution acknowledgements
- Qualified sponsorship payments
- Unrelated business income
- Fundraising events
- Worker classification
- Political and lobbying activities
- Compensation documentation
- Governance
- Complex structures
- State charitable solicitations
- Integrated auxiliary status



#11 - Charitable Contribution Acknowledgements

- Required for donors to claim contribution deduction for amounts greater than \$250
- Only cash contributions have value stated
- Non-cash and in-kind only acknowledge gift
 - No value
- IRS scrutiny on faulty donor acknowledgements have resulted in deduction disallowance

IRS Publication 1771, Charitable Contributions – Substantiation and Disclosure Requirements



#10 – Qualified Sponsorship Payments (QSP)

- Payment from which the donor does not expect any substantial return benefit other than the use or acknowledgement of the sponsor's name, logo, or products
- QSPs are generally treated as a contribution
- If substantial return benefits are provided in exchange for the payment, an allocation of FMV to benefits must be made
- Rules do not apply to sponsorships within a qualified convention or trade show



#10 – Qualified Sponsorship Payments (con't)

- Substantial return benefit includes
 - Advertising
 - Exclusive provider arrangements
 - Goods
 - Services
 - Other privileges



#10 – Qualified Sponsorship Payments (con't)

- Substantial return benefit excludes
 - Recognizing sponsor by:
 - ◇ sponsor's name/logo
 - ◇ slogans that are part of the sponsors identity or that do not contain qualitative or comparative descriptions
 - ◇ listing of sponsor's locations, telephone #'s, or internet addresses
 - ◇ value-neutral descriptions
 - ◇ sponsor's brand or trade names and product listings
 - Display or distribution of the sponsor's product by the sponsor or exempt org. at the sponsored activity
 - Hyperlink on the exempt org. website to the sponsor's site
 - cannot contain any endorsement or promotion – must link to home vs. sales page



#9 – Unrelated Business Income

- Continues to be scrutinized by regulators
- Required factors for UBI to exist
 - Trade or business,
 - Regularly carried on and
 - Not related to the organization's exempt purpose
- Common sources:
 - Advertising
 - Facility rental
 - Provision of services not related to exempt purpose
 - Investments



#8 – Fundraising Events

- Undertaken for the purpose of securing resources
 - May be cash or volunteers
- As with GAAP, tax requires segregation of direct fundraising vs. pre-event expenses
- Quid pro quo
 - Required for payments of \$75 or more and payer receives a benefit
 - FMV must be stated
 - Commonly applies to silent auctions
 - Failure to comply potential \$50/occurrence penalty plus contribution disallowance to donor



#7 – Worker Classification

- Regulatory scrutiny – DOL, IRS, States
- Requires evaluation of control
 - Behavioral
 - Financial
 - Type of relationship
- Withholding requirements may apply
 - Secure documentation of status
 - ◇ W-9
 - ◇ W-9BEN
 - ◇ Form 8233
 - ◇ VISA



#6 – Political & Lobbying Activities

- Must differentiate between the activities
- Political activities – candidate intervention
 - Absolute prohibition
- Lobbying activities – advocacy
 - Allowed subject to limitations
 - Integrated auxiliaries
 - ◇ Cannot file 501(h) election



#5 – Compensation Documentation

- Total compensation package must be documented
 - Compensation plus all benefits
- Regardless of amount of compensation, documentation of reasonableness is required
 - Comparability, independent persons & contemporaneous substantiation
- Comparability data may include
 - Compensation study, published data, review of Form 990s, etc.



#4 – Governance

- Continues to be of interest of regulators
- All IRS examinations address governance
- Link between good governance and tax compliance
- Consider adoption of best practices and policies
- IRS Governance Check Sheet
 - Form 14114



#3 – Complex Structures

- Diversity of activities often necessitate complex entity structures
 - Unrelated business income
 - Program activities outside of traditional scope
- Why separate entities may be desirable
 - Protection of exempt status
 - Limited liabilities
 - Licensing



#2 – State Charitable Solicitation Compliance

- Nature of activities and laws of the state determine who must register
 - Solicitations broadly defined
 - ◇ Mail, internet, phone, social media, grant applications, etc.
 - Fundraising events
 - Use of professional fundraiser
- Compliance may be difficult and costly
 - Lack of uniformity between jurisdictions
- Non-compliance may be costly
 - Financial and reputational



#1 – Classification as an Integrated Auxiliary

- Exemption from Form 990 filing and certain state charitable solicitation registration requirements
- Determination is not straightforward
 - Inclusion in Kennedy Directory is **NOT** determinative factor
- Three prong test
 - Classified as a 501(c)(3) exempt organization
 - Church affiliation
 - Internal support test



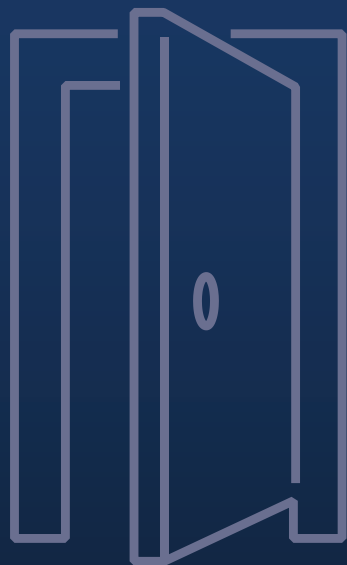
#1 – Classification as an Integrated Auxiliary (con't)

- Organization is deemed to be internally supported unless it **both**
 - Offers admissions, goods, services or facilities for sale, other than on an incidental basis, to the general public &
 - ◇ Exception for nominal charge or insubstantial portion of the cost
- Normally receives more than 50% of its support from
 - governmental sources
 - public solicitation of contributions
 - receipts from the sale of admissions, goods, performance of services, or furnishing of facilities in activities that are not unrelated trades or businesses





Questions



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